

**PALACIO DEL GOBERNADOR CONDOMINIUM CORPORATION**  
***A Non-Stock Non-Profit Organization***  
**NOTES TO THE FINANCIAL STATEMENTS**  
(In Philippine Peso)

**1. GENERAL INFORMATION**

The Palacio del Gobernador Condominium Corporation (PDGCC) is a non-stock and non-profit condominium corporation created by virtue of the Master Deed with Declaration of Restrictions executed on August 30, 1976 pursuant to the provisions of Republic Act (RA) No. 4726, the Condominium Act and Act No. 1459, Corporation Code. The PDGCC was registered with the Securities and Exchange Commission (SEC) on September 27, 1976 under Registration No. 69822.

The PDGCC was formed and organized for the purpose of holding title to all the common areas in the Palacio del Gobernador Condominium Project. This project comprises the land and building where the site is regarded as a historical landmark by the National Historical Commission of the Philippines (NHCP).

Membership in the PDGCC is an appurtenance to the ownership of condominium unit. It is controlled by the Government of the Republic of the Philippines, thru the following agencies, upon acquisitions of all the units in the eight-storey building of the project since the years 1980 to 1981, partitioned as follows:

- |                                  |  |
|----------------------------------|--|
| • Bureau of the Treasury (BTr)   | ¼ of the 1 <sup>st</sup> floor, 2 <sup>nd</sup> , 3 <sup>rd</sup> , 4 <sup>th</sup> and 6 <sup>th</sup> floors |
| • Intramuros Administration (IA) | 5 <sup>th</sup> floor  |
| • Office of the President (OP)   | ¾ of the 1 <sup>st</sup> floor, 7 <sup>th</sup> and 8 <sup>th</sup> floors                                     |

The PDGCC is governed by the Board of Directors whose eight members represent the BTr, IA and OP. They also occupy the position as President, Vice President, Treasurer, Assistant Treasurer, Secretary, Assistant Secretary, Legal Counsel, and Internal Auditor of the PDGCC. As at December 31, 2021, the PDGCC is headed and represented by President/Chairperson Rosalia V. De Leon who is also the incumbent Treasurer of the Republic of the Philippines. The PDGCC also has an Administrative Committee created in January 2006 that is presently composed of a Chairperson and three members.

The PDGCC generates funds from assessments it receives from unit owners/members and tenants in the building used for expenses necessary in the administration of the project.

As at December 31, 2021, the Corporation has five regular personnel. The Corporation's principal address is at General Luna corner Andres Soriano, Jr. Streets, Intramuros, Manila.

The financial statements of the Corporation as at and for the year December 31, 2021 (including the comparative financial statements as at and for the year ended December 31, 2020) were authorized for issue by the Board of Directors on March 10, 2022.

## **2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

### **2.1 Statement of Compliance**

The financial statements of PDGCC have been prepared in accordance with Philippine Financial Reporting Standard (PFRS) for Small Entities (SEs). PFRS for SEs is adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board. The FRSC has approved on December 13, 2017 the adoption of PFRS for SEs (the "Framework"). This Framework is intended for use by small entities as defined by SEC.

PDGCC has also adopted COA Circular No. 2017-004 dated December 13, 2017 - Guidelines on the preparation of financial statements and other financial reports and implementation of the PFRS by Government Corporations Classified as Government Business Enterprises and Philippine Public Sector Accounting Standards by Non-Government Business Enterprises and COA Circular No. 2020-002 dated January 28, 2020 - Adoption of the Updated Revised Chart of Accounts for Government Corporations (2019).

### **2.2 Basis of Preparation of Financial Statements**

The financial statements of PDGCC have been prepared on historical basis unless otherwise indicated.

The financial statements have been prepared using the measurement bases specified by PFRS for SEs for each type of assets, liabilities, income and expense. The measurement bases are more fully described in the accounting policies in the succeeding pages.

### **2.3 Functional and Presentation Currency**

The financial statements are presented in Philippine pesos, the PDGCC's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the PDGCC are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the PDGCC operates.

### **2.4 Going Concern Basis of Accounting**

The Management has assessed the Corporation's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties that may cast significant doubt upon the Corporation's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

PFRS for SEs have been published and issued by SEC and adopted by FRSC of the Philippines which became effective for accounting periods beginning on or after January 1, 2019. The significant accounting policies applied in the preparation of the financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The adoption of the said standards, amendments and interpretations, upon which the Corporation has opted to adopt for the financial statements, did not have significant effect on the Corporation's financial statements. These, however, require additional disclosures on the Corporation's financial statements.

#### **3.1 Financial Instruments**

##### **a. Date of recognition**

A financial asset or liability is recognized only when the Corporation becomes a party to the contractual provisions of the instrument.

##### **b. Initial recognition**

Basic financial assets and financial liabilities are initially measured at the transaction price unless the arrangement constitutes, in effect, a financing transaction. A financing transaction may be indicated in relation to the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. If the arrangement constitutes a financing transaction, measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

##### **c. Measurement subsequent to initial recognition**

Financial instruments shall be measured without any deduction for transactions cost the entity may incur on sale or other disposal. Debt instruments shall be measured at amortized cost using the effective interest method. Cash and debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (i.e., net of impairment) unless the arrangement constitutes, in effect, a financing transaction. If the arrangement constitutes a financing transaction, the entity shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

##### **Amortized cost and effective interest method**

Amortized cost is the net of the amount at which the financial instrument is measured at initial recognition, minus repayments of the principal; plus/minus the cumulative amortization using effective interest method of any difference between the amount at initial recognition and the maturity amount; minus reduction of impairment or collectability (for financial assets).

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the carrying amount of the financial asset or financial liability. The effective interest rate is determined on the basis of the carrying amount of the financial asset or liability at initial recognition. Under the effective interest method: a) the amortized cost of a financial asset (liability) is the present value of future cash receipts (payments) discounted at the effective interest rate; and b) the interest expense (income) in a period equals the carrying amount of the financial liability (asset) at the beginning of a period multiplied by the effective interest rate for the period.

#### d. Derecognition

A financial asset (or, where applicable a part of a financial asset or group of financial assets) is derecognized only when:

- the contractual rights to the cash flows from the financial asset expire or are settled; or
- the entity transfers to another party substantially all the risks and rewards of ownership of the financial asset.

A financial liability (or a part of a financial liability) is derecognized only when it is extinguished - i.e., when the obligation specified in the contract is discharged, is cancelled or has expired.

#### e. Impairment

The Corporation assesses at each reporting date whether there is objective evidence that a financial instrument impaired.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows.

For instruments measured at amortized cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original EIR. If such a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR determined under the contract.

For instruments measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the Corporation would receive for the asset if it were to be sold at the reporting date.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the entity shall reverse the previously recognized impairment loss either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not previously been recognized. The entity shall recognize the amount of the reversal in statements of income immediately in the statements of income.

### **3.2 Cash and Cash Equivalents**

Cash and cash equivalents include Petty Cash Fund (PCF), Cash in Banks in current and savings accounts. The PCF is maintained under the imprest system. All replenishments are directly charged to the appropriate expense account.

### **3.3 Inventories**

Inventories held for consumption are measured at cost. Cost includes the costs of purchase (including taxes, transport, and handling) net of trade discounts received and other costs incurred in bringing the inventories to their present location and condition. Inventories also include semi-expendable equipment costing less than P15,000. Said inventories are recognized as expense once issued, transferred, lost or disposed.

#### **Impairment of inventories**

At each reporting date, inventories are assessed whether any inventories are impaired. The entity shall make the assessment by comparing the carrying amount of each item of inventory (or group of similar items) with its market value. If an item of inventory (or group of similar items) is impaired, the entity shall reduce the carrying amount of the inventory (or the group) to its market value. Market value is determined as the probable selling price to willing buyers as of reporting date. That reduction is an impairment loss and it is recognized immediately in statements of income.

When the circumstances that previously caused inventories to be impaired no longer exist, or when there is clear evidence of an increase in market value because of changed economic circumstances, the entity shall reverse the amount of the impairment (i.e., reversal is limited to the amount of the original impairment loss) so that the new carrying amount is the lower of the cost and the revised market value.

### **3.4 Property and Equipment**

#### **a. Recognition**

An item is recognized as property and equipment (PE) if it meets the characteristics and recognition criteria as a PE.

The characteristics of PE are as follows:

- i. Tangible items;
- ii. Are held for use in the production or supply of goods or services, for rental

- to others, or for administrative purposes; and
- iii. Are expected to be used during more than one reporting period.

An item of PE is recognized as an asset if:

- i. It is probable that future economic benefits or service potential associated with the item will flow to the entity;
- ii. The cost or fair value of the item can be measured reliably; and
- iii. The cost is at least P15,000.

**b. Measurement at recognition**

An item recognized as PE is measured at cost. A PE acquired through non-exchange transaction is measured at fair value as at the date of acquisition.

Cost includes the following:

- i. Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- ii. Expenditures that is directly attributable to the acquisition of the items; and
- iii. Initial estimates of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired, or as a consequence of having used the item during particular period for purposes other than to produce inventories during that period.

**c. Measurement after recognition**

After recognition, all PE are stated at cost less accumulated depreciation and impairment losses. When significant parts of PE are required to be replaced at intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major repair/replacement is done, its cost is recognized in the carrying amount of the PE as a replacement if the recognition criteria are satisfied.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in the statement of income in the year the asset is derecognized. All other repair and maintenance costs are recognized in the statement of income.

**d. Depreciation**

Each part of an item of PE with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation charge for each period is recognized as expense unless it is included in the cost of another asset.

**i. Initial recognition of depreciation**

Depreciation of an asset begins when it is available for use such as when it is in the location and condition necessary for it to be capable of operating in the manner intended by Management.

For simplicity and to avoid proportionate computation, depreciation is recognized for one month if the PE is available for use on or before the 15<sup>th</sup> of the month. However, if the PE is available for use after the 15<sup>th</sup> of the month, depreciation is for the succeeding month.

ii. Depreciation method

The straight line method of depreciation is adopted unless another method is more appropriate for the Corporation's operation.

iii. Estimated useful life

The Corporation uses the following estimated useful lives for PE:

Item of PE	Estimated useful life
IT equipment	5 years
Furniture and fixtures	10 years
Office equipment	5 years
Other PE	5 to 10 years

iv. Residual value

The Corporation uses residual value equivalent to at least five per cent of the cost of the PE.

e. Impairment and derecognition

At each reporting date, the cost of PE is reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in statement of income. If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not more than the amount that would have been determined had no impairment loss been recognized for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in statement of income.

The Corporation shall derecognize an item of PE on disposal or when no future economic benefits are expected from its use or disposal.

PDGCC shall recognize the gain or loss on the derecognition of an item of PE in statement of income when the item is derecognized and shall not classify such gains as revenue. For a straightforward disposal of an item of PE for cash, the date of disposal is usually the date when the risks and rewards of ownership of the asset have passed. The gain or loss arising from the derecognition of an item of PE shall be the difference between the net disposal proceeds, if any, and the carrying amount of the item